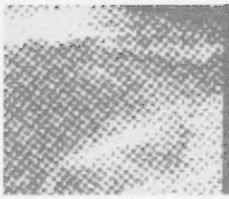
The Manitoba Hydro-electric Board

Quarterly Report

for the three months ended
June 30, 2016



Comments by the **The Chair of the Board** and by **The President and Chief Executive Officer**

Financial Overview

Manitoba Hydro's consolidated net loss was $48 million for the first three months of the 2016-17 fiscal year compared to a net loss of $16 million for the same period last year. The increase in the net loss is primarily attributable to higher expenses and lower extraprovincial revenues.

The consolidated net loss was comprised of a $42 million loss in the electricity segment, an $8 million loss in the natural gas segment and a $2 million net profit in other segments.

The loss in both the electric and natural gas sectors is expected to be recouped over the winter heating season. Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year and net income is forecast to reach approximately $30 million by March 31, 2017. This forecast is based on the continuation of current water flow and export market conditions and the assumption of normal winter weather.

Electric Segment

Revenues from electricity sales within Manitoba totaled $312 million for the three-month period, which was $2 million or 1% higher than the same period last year. The increase in domestic revenue was primarily attributable to the August 1, 2015 electric rate increase, higher weather- related consumption and customer growth, partially offset by lower customer usage. Extraprovincial revenues of $105 million were $6 million or 5% lower than the same period last year reflecting lower export prices on opportunity sales. Energy sold in the export market was 3.0 billion kilowatt-hours which was consistent for the same period last year. Other revenues of $8 million were comparable to the same period last year.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $471 million for the three-month period, an increase of $29 million or 7% higher than the same period last year. The increase was primarily the result of a $15 million increase in net finance expense, a $5 million increase in fuel and power purchased, a $5 million increase in capital and other taxes, a $3 million increase in operating and administrative expenses and a $3 million increase in depreciation and amortization expense. The increase in net finance expense was primarily due to realized foreign exchange losses on U.S. debt and higher volumes of long-term debt to finance capital expenditures, partially offset by lower interest rates. The increase in fuel and power purchases is primarily due to additional dependable wind purchases resulting from higher wind generation as well as an increase in transmission rates. Capital and other taxes increased as a result of additional debt borrowings required for major capital development.

The increase in operating and administrative costs is mainly due to higher wages, salaries and benefits, partially offset by staffing reductions and increased deployment to capital projects. The increase in depreciation and amortization is primarily attributable to new additions to plant being placed into service including the earth filled dam associated with the Pointe du Bois spillway replacement.

The net loss before net movement in regulatory balances is $60 million. After considering the net movement of $14 million in the regulatory deferral balances, there is a net loss of $46 million of which $42 million is attributable to Manitoba Hydro and $4 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results, for the first three months of the 2016-17 fiscal year.

Expenditures for capital construction for the three-month period amounted to $571 million compared to $496 million for the same period last year. Expenditures for the current period included $233 million related to construction of the Keeyask Generating station and $206 million for the Bipole III reliability project. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred $10 million for electric Power Smart programs.

Natural Gas Segment

The net loss in the natural gas segment was $8 million for the three-month period compared to a $9 million net loss for the same period last year. Revenue, net of cost of gas sold (net revenue), was $36 million which was $9 million higher than the same period last year. The increase in net revenue was largely the result of lower gas costs compared to the prior year. Delivered gas volumes were 363 million cubic metres compared to 347 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $36 million which is comparable to the same period last year.

Net income before net movement in regulatory balances is nil. The $8 million change in the regulatory deferral balance over the prior year is primarily attributable to a greater differential between actual cost of gas compared to PUB approved rates. After considering the net movement of $8 million in the regulatory balances, there is a net loss of $8 million.

Capital expenditures in the natural gas segment were $8 million for the current three-month period compared to $7 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred $2 million for gas Power Smart programs.

Other Segments

The other segments include Manitoba Hydro International Ltd., Manitoba Hydro Utility Services, Minell Pipelines Ltd. and Teshmont Holdings Ltd. The net income was $1 million in other segments for the three-month period compared to net income of $2 million for the same period last year. Revenue was $15 million which was comparable to the prior period. Expenses attributable to other segments amounted to $14 million compared to $13 million for the same period last year.

There is also a $1 million profit impact in adjustments and eliminations as a result of the requirement to harmonize accounting policies between electric and gas operations related to the gas meter exchange program.

New Board of Directors for Manitoba Hydro

A new Board of Directors was appointed for Manitoba Hydro on May 4, 2016 with H. Sanford Riley as chair and Steve Kroft as vice chair.

H. Sanford Riley is President and CEO of Richardson Financial Group Ltd. Steve Kroft is President of the Conviron Group of Companies.

The other board members are: David Brown, President and CEO of Richardson Capital; Earl Edmondson, President of Edmondson Holdings Ltd.; Cliff Graydon, MLA for Emerson; Jennefer Nepinak, senior adviser with the Canadian Museum for Human Rights; Michael Pyle, CEO of the Exchange Income Corp.; Allen Snyder, former Manitoba Hydro executive and current President of AM Snyder and Associates; Dayna Spiring, President and CEO of Economic Development Winnipeg; and University of Winnipeg President Annette Trimbee, a former deputy minister in Alberta.

Manitoba Hydro-Electric Board's responsibilities include ensuring a safe, reliable, economical and environmentally responsible supply of energy for the province. The Board also has statutory authority and obligation to oversee the management of the business and affairs of the corporation and to ensure that the corporation fulfils its statutory objectives in the public interest. In conjunction with receiving extensive briefings on Manitoba Hydro's business and operations, the new Board is currently undertaking a review of the corporations' strategies, with a strong focus on a thorough review of its major capital projects, financial plans and forecasts.

Natural Gas Rate Decrease

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers decreased on May 1, 2016, by 3.3% or approximately $25 per year. Rate changes for larger volume customers ranged from decreases of 3.8% to 7.3% depending on the customer class and consumption levels.

The bill impacts are primarily the result of changes in the price that Manitoba Hydro pays for natural gas from Alberta.

Manitoba Hydro responds to major storm damage

On June 25 and 26 more than 38 000 customers experienced power outages as high winds and heavy rain moved west to east across a large portion of southern Manitoba.

Wind speeds peaked at 124 kilometres per hour in the Melita area and rainfall amounts were reported as high as 140 millimetres in the West Hawk Lake area. Numerous trees and branches fell on distribution lines.

Approximately 300 staff were involved in the restoration efforts. Despite the widespread damage, service to the majority of customers was restored by late evening on Sunday, June 26.

The response came one week after another large storm hit Westman, Parkland, Eastman, Interlake and Winnipeg, causing extensive damage that included a fire at the Southwood substation in Winnipeg. Approximately 23 000 customers were affected and most had power restored by the evening of Monday, June 20.

25 years of Power Smart

Power Smart celebrates its 25th anniversary at Manitoba Hydro this year.

The energy conservation program was introduced in April 1991 as a new way to reduce customer demand for electricity. Since then nearly 1.9 million participants have benefitted from Power Smart energy efficiency programs.

Cumulative customer bill reduction is approximately $1.3 billion, consisting of $1.0 billion on electric bills and $274 million on natural gas bills. When combined with bill reductions to date, Power Smart programs are expected to save participating customers more than $5.9 billion cumulatively by 2030-31.

The Power Smart portfolio of programs presently includes 34 customer service, cost-recovery, incentive-based, and rate-based programs customized to meet the specific energy needs of the residential, commercial, agricultural and industrial markets.

On May 24, 2016, Manitoba Hydro was presented with the prestigious Energy Star Utility of the Year award by Natural Resources Canada. The award recognizes excellence in the promotion of energy efficiency by a utility to its customers.

H. Sanford Riley
Chair of the Board

Kelvin Shepherd, P. Eng.
President and
Chief Executive Officer

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2016	**2015**
Revenues		
Domestic – Electric	312	310
– Gas	59	60
Extraprovincial	105	111
Other	21	21
	479	502
Expenses		
Cost of gas sold	23	33
Operating and administrative	154	150
Finance expense	159	143
Depreciation and amortization	101	99
Water rentals and assessments	31	31
Fuel and power purchased	31	26
Capital and other taxes	35	30
Other expenses	21	22
	555	534
Net loss before net movement in regulatory balances	(58)	(32)
Net movement in regulatory balances	6	13
Net Loss	(52)	(19)
Net loss attributable to:		
Manitoba Hydro	(48)	(16)
Non-controlling interest	(4)	(3)
	(52)	(19)

Consolidated Statement of Financial Position

In Millions of Dollars (Unaudited)

	As at June 30	*As at June 30*
	2016	**2015**
Assets		
Current assets	1 512	1 106
Property, plant and equipment	17 678	15 645
Non-current assets	644	819
Total assets before regulatory deferral balance	19 834	17 570
Regulatory deferral balance	501	423
	20 335	17 993
Liabilities and Equity		
Current liabilities	1 071	1 183
Long-term debt	14 903	12 606
Other long-term liabilities	1 577	1 515
Deferred revenue	571	469
Non-controlling interest	148	127
Retained earnings	2 780	2 763
Accumulated other comprehensive loss	(776)	(693)
Total liabilities and equity before regulatory deferral balance	20 274	17 970
Regulatory deferral balance	61	23
	20 335	17 993

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2016	**2015**
Operating Activities		
Cash receipts from customers	560	599
Cash paid to suppliers and employees	(430)	(250)
Net interest	(171)	(157)
	(41)	192
Financing Activities	574	392
Investing Activities	(573)	(538)
Net increase in cash	(40)	46
Cash at beginning of period	956	494
Cash at end of period	916	540

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Three Months Ended June 30	
	2016	**2015**
Net Loss attributable to Manitoba Hydro	(48)	(16)
Other Comprehensive Income		
Items that will be reclassified to income		
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(5)	31
Items that will be reclassified to income		
Realized foreign exchange (gains) losses on debt in cash flow hedges	5	(4)
	-	27
Comprehensive Loss attributable to Manitoba Hydro	(48)	11

Segmented Information

In Millions of Dollars (Unaudited)

	Electric Segment		Natural gas segement		All other segments		Eliminations		Total	
Three Months Ended June 30	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue	425	429	59	60	15	15	(2)	(2)	497	502
Expenses	485	455	59	69	14	13	(3)	(3)	555	534
Net income (loss) before net movement in regulatory balances	(60)	(26)	-	(9)	1	2	1	1	(58)	(32)
Net movement in regulatory balances	14	13	(8)	-	-	-	-	-	6	13
Net income (loss)	(46)	(13)	(8)	(9)	1	2	1	1	(52)	(19)
Net income (loss) attribute to:										
Manitoba Hydro	(42)	(10)	(8)	(9)	1	2	1	1	(48)	(16)
Non-controlling interest	(4)	(3)	-	-	-	-	-	-	(4)	(3)
	(46)	(13)	(8)	(9)	1	2	1	1	(52)	(19)
Total assets	19 791	17 463	652	662	72	66	(180)	(198)	20 335	17 993

Generation and Delivery Statistics

	Three Months Ended June 30	
	2016	**2015**
Electricity in gigawatt-hours		
Hydraulic generation	8 476	8 548
Thermal generation	2	-
Scheduled energy imports	3	9
Wind purchase (MB)	249	212
Total system supply	8 730	8 769
Gas in millions of cubic metres		
Gas sales	183	169
Gas transportation	180	178
	363	347

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For further information contact:

Manitoba Hydro
Public Affairs
360 Portage Ave. (2)
Winnipeg, Manitoba, Canada
R3C 0G8
Telephone: 1-204-360-3233

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